

	N°	Title
	III.4-10b	<p>PROCEDURES SPECIFIC TO SPECIAL CLEARING MEMBERS</p> <p>RELATING TO NET FAILS ON CASH ON DEBT SECURITIES EXECUTED ON OR REPORTED BY A TRADING AND MATCHING PLATFORM AND MTS ITALY</p>

In this Instruction the following capitalised terms shall have the meaning set out below:

"**Calculation Date**" means each Clearing Day on which LCH SA determines the Loan Amount in respect of the corresponding Net Fail on cash of a Special Clearing Member.

"**D**" designates the intended Settlement Date agreed on the day of Transaction's conclusion.

"**Loan**" means a 0% interest bearing loan granted or to be granted by a Special Clearing Member to LCH SA in accordance with the provisions of this Instruction.

"**Loan Amount**" means the amount calculated by LCH SA in respect of a Loan and equal:

- to the haircut applicable by the European Central Bank (ECB) to the Securities received by LCH SA in relation to the Transaction(s) on which the Net Fail(s) occurred and which are pledged by LCH SA to the benefit of the ECB for the purposes of obtaining a credit line facility to fund the financing needs of LCH SA in relation to the Net Fail(s) on cash of the Special Clearing Member, plus the difference in the value of these Securities pledged and assessed on a daily basis by the ECB,
- as an exception to the paragraph above, when the Net Fail on cash occurred in the context of a Triparty Repo, to the Securities received by LCH SA in relation to the Transaction(s) on which the Net Fail(s) occurred and which are pledged by LCH SA to the benefit of the ECB for the purposes of obtaining a credit line facility to fund the financing needs of LCH SA in relation to the Net Fail(s) on cash of the Special Clearing Member, minus the haircut taken into account in the valuation of the Baskets, plus the difference in the value of these Securities pledged and assessed on a daily basis by the ECB.

"**Loan Maturity Date**" means in respect of a Loan the Clearing Day following the day on which LCH SA has debited the TARGET2 Account of the Special Clearing Member with the Loan Amount.

Terms used in this Instruction, if not otherwise defined herein, shall have the meanings ascribed to them in the Clearing Rule Book of LCH SA.

Article 1

The procedure in Articles 2 to 5 below applies if a Net Fail on cash occurs due to a lack of payment by a Special Clearing Member for which LCH SA has received Securities from the selling Clearing Member.

Article 2

On the Clearing Day on which a Net Fail on cash occurs, LCH SA notifies the Special Clearing Member which has failed to pay for Securities on D of such failure and of the Loan Amount, if any, both by phone and by email or any other electronic means.

The Special Clearing Member can request from LCH SA the details regarding the calculation of the Loan Amount before 5:00 pm CET on D (if D is not a Special Clearing Member Business Day, on the next Clearing Day which is also a Special Clearing Member Business Day), in which case LCH SA will provide these details before 5:15 pm CET on the Clearing Day of the request.

In case of dispute regarding the Loan Amount, and without prejudice of the application of the provisions of article 3 below, both LCH SA and the Special Clearing Member shall attempt to reach an agreement before the beginning of any complaint resolution procedure as mentioned in Instruction I.3.6.

Article 3

Notwithstanding the application of the provisions of article 2 above, if the Net Fail on cash has not been settled by 4.00 pm CET on the D (if D is not a Special Clearing Member Business Day, on the next Clearing Day which is also a Special Clearing Member Business Day), LCH SA may debit the TARGET2 Account of the Special Clearing Member of the Loan Amount from 5:15 pm CET on the same Clearing Day.

The Special Clearing Member agrees to make available to LCH SA a Loan in an aggregate amount equal to the Loan Amount at 5.15 p.m CET.

The Special Clearing Member irrevocably authorises LCH SA to debit or credit the TARGET2 Account of that Special Clearing Member of the Loan Amount, and grants a Power of Attorney to LCH SA accordingly.

Article 4

For so long as the Net Fail on cash is continuing, LCH SA may calculate on each Calculation Date the Loan Amount under a new Loan to be granted by the Special Clearing Member to LCH SA on the relevant Calculation Date.

Upon decision of LCH SA, the Special Clearing Member shall grant a new Loan to LCH SA on each Loan Maturity Date of the previous Loan from the day of occurrence of the Net Fail on cash (included) until either the full settlement by the Special Clearing Member of the Open Position(s) in respect of which the Net Fail on cash has occurred or, if the Special Clearing Member has not fulfilled its payment obligations in respect of such Net Fail and a Special Clearing Member Event occurs, until the completion of the management of the Open Positions of that Special Clearing Member as mentioned in an Instruction, as the case may be.

Article 5

LCH SA will repay the Loan Amount to the Special Clearing Member on the Loan Maturity Date.

Article 6

LCH SA shall be entitled to debit from the Target 2 Account of the Special Clearing Member, on a monthly basis, the amount of the interest charged by the ECB to LCH SA related to the credit line facility obtained from the ECB in order to fund the financing needs of LCH SA in relation to the Net Fail(s) on cash of the Special Clearing Member.

Article 7

The Special Clearing Member has the possibility to ask for a "pair-off", whereby multiple Net Fails relating to the same ISIN, the same currency and the same Delivery Account pointing towards the same settlement solution, but with different Intended Settlement Dates and opposite directions (buy/sell) are netted.

Pair-off requests and processing shall be made in accordance with the conditions set out in a Notice. LCH SA shall only process pair-off requests on a best effort basis.